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TO RUEHC/SECSTATE WASHDC 7241
INFO RUEATRS/DEPT OF TREASURY WASHDC
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UNCLAS SECTION 01 OF 02 PARIS 003135

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E.O. 12958: N/A
TAGS: EFIN ECON EAIR PGOV FR
SUBJECT: STATE-OWNED AIRPORTS AUTHORITY TO PARTIALLY PRIVATIZE

¶1. SUMMARY. The Paris Airports operator ("Aeroports de Paris" or ADP), the second largest European operator, is to launch an initial public offering of shares to raise 1.0-1.5 million euros, including 500-600 million euros by an increase in capital and a similar amount by a sale of government shares. The government may reduce its stake to 51% as initially expected, but could also keep a 60-70% stake depending on the valuation of ADP. END SUMMARY

ADP Prepares a Capital Opening

¶2. Aeroports de Paris (ADP), the 100% state-owned enterprise which operates Roissy-Charles De Gaulle, Paris-Orly, Paris-Le Bourget airports and 14 other regional airports, filed with the stock market regulator ("Autorite des Marches Financiers" - AMF), as the first step in an initial public offering (IPO) of some of its shares. On April 23, Finance Minister Thierry Breton said the IPO could take place by the end of June, depending on market conditions.

¶3. In a press release, ADP claims that it is the second largest operator in Europe by sales, and the first for freight and mail. ADP handles 78.7 million passengers yearly. It confirmed its objective to raise "1.0-1.5 million euros," including 500-600 million euros by an increase in capital and a similar amount by a sale of government shares. Some 10% of the offering would be reserved for ADP's employees in line with a 1986 law. Employees are likely to benefit from a 20% discount and from free shares.

¶4. The government still has to decide whether to keep a 51% stake in the group as initially expected, or if it retains a larger 60-70% stake. The government decision will depend on the valuation of ADP. According to the press, ADP's market value is estimated at more than 3 billion euros (excluding debt). Valuation of more than 3 billion euros would result in government stake close to 70%. The government could sell ADP's shares later on as it did with Air France's shares. Breton said that funds raised could be used to reduce government debt or to reinforce the balance sheets of other state-owned companies.

¶5. On April 25, ADP authorities presented financial data and investment plans to analysts. On this basis, analysts will provide an estimate of the value of the group, which will help ADP to set final modalities of the capital opening, notably pricing. The next step will be to present ADP's project to potential institutional investors - individual shareholders are not the primary targets of the IPO. The last step will be the official announcement of the IPO approved by AMF at an assembly of ADP's shareholders on May 22. ADP could be listed on the Euronext stock exchange in the middle of June.

ADP is Indebted, but Posted High Profit in 2005
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¶6. The opening of capital is intended to reduce ADP's debt ratio (debt as a percent of capital) to 70%. ADP's debt ratio (based on international accounting standards) is twice as high (113%) than that of European operators, including the British Airports Authority BAA (54%). Standard & Poor's (S&P) announced on April 27 that it had placed ADP's "AA" long-term corporate credit rating on CreditWatch. According to an S&P analyst, S&P could downgrade ADP. In 2005, ADP posted a 13.8% increase in operating profit to 331.2 million euros, and a 24.9% increase in net profit (group share) to 179.9 million euros. Resources were boosted by rentals of stores and fees paid by passengers. In the economic regulation contract signed in February 2006, the government authorized ADP to increase airport fees by 5% in 2006 and by a maximum of 3.25% above the annual inflation rate in the following four years. Fees and a capital increase will fund operating expenses and investments.

ADP's Investment Program is Ambitious

¶7. The delay in ADP's partial privatization, which had been initially planned to occur by the end of 2005, allowed chairman Pierre Graff to finalize a 5-year development program. ADP plans to invest 2.7 billion euros for the 2006-2010 period to improve and expand facilities for passengers. Investment is necessary for modernization of airports. A large part of investment will go to the international Roissy-Charles de Gaulle airport that has suffered serious technical problems in recent years. ADP's objective is to increase Roissy's capacity to 66.5 millions passengers in 2010 from 53.8 million in 2005. In addition to already launched building sites, ADP is planning the construction of a new terminal (T4) at a cost of 1.63 billion euros which should have a capacity of 25 million passengers, and should be partially operational in 2016. ADP reportedly wants to reach 100 millions passengers in Roissy in 2020, which would make it the busiest European airport.

ADP Promises High Profitability to Shareholders
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¶8. ADP plans to increase its gross operating surplus by "45-50% by 2010" from 592.4 million euros in 2005, and improve operational margins (surplus as a percent of sales) from 30.9% in 2005 to the levels of BAA (46.2% in 2005). Increased airport fees, and strong receipts related to a 30% expansion of commercial areas (stores, bars and restaurants) by 2010 would help to increase margins. ADP also has 6,600 hectares of property business development it can use to expand, or it can rent to get incomes. ADP also plans to increase productivity of employees "by about 15% by 2010." Of special interest for new shareholders, ADP decided to redistribute to them 50% of its future net consolidated profit from 2006 compared with 35% in 2005. Regular increases of airport fees over five years seemed to please potential investors.

ADP Privatization Raises Some But Not Much Opposition
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¶9. Within ADP, representatives of leftist unions CGT and FO have opposed the partial sale of ADP, recently denouncing an agreement allowing ADP's employees to transform free days into ADP shares, which "makes the agreement null and void." ADP gave up the project "for the moment." In the press, a French columnist at influential daily newspaper Le Monde, Frederic Lemaitre, wrote "the opening of ADP's capital raises questions. At a time when the U.S. refuses to trust its New York port assets to foreign interests, it is shocking that the debate has not taken place." Lemaitre also cited opposition in the U.K. to the Spanish hostile bid for BAA.

Airport Fees Fuel Global Debate

¶10. Roissy airport is engaged in litigation with national and international carriers for lavish spending and high fees to fund improvement in airport structures. The French National Federation of Merchant Aviation filed an appeal to request the elimination of ADP's regulation contract. The International Air Transport Association claimed that tariff links are unfair use of ADP's monopoly power. Transportation Ministry officers are unfazed,

commenting such "problems are part of the daily life of companies." The fight over fees has fueled a conflict about who should pay for infrastructure, and raised the question whether management of airports is best left in public or private hands.

Comment

¶11. Even with the partial privatization, the bottom line is that the GOF will retain management control of ADP. Even if criticisms mount against the capital opening, the government is likely to press ahead to take advantage of renewed interest in the airport sector in Europe. Neither the unions' discontent nor the pending appeals are likely to affect the calendar of the IPO. ADP's capital opening is probably the last significant partial privatization that will take place before French presidential elections in 2007. The government is not yet ready to open the capital of the developer and builder of nuclear reactors AREVA, which has been delayed several times since
¶2004.
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